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China and Russia: Implications for European and Transatlantic Security Cooperation¹

Frank Umbach

Introduction

The terrorist attacks of September 11, 2001, focused renewed attention on South and Central Asia, the Middle East, and in particular, the Persian Gulf. These regions (also defined as the “Greater Middle East” or the „Strategic Ellipse“) are of strategic importance to the stability of the world energy supply in the 21st Century—and thus for the future of European and transatlantic security cooperation.

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The world's energy security question—which connects disparate issues such as economics, national security, and environmental policies (such as the 'Kyoto-Protocol' for the global climate)—will likely become one of the major global challenges of this century. Key global energy developments already confirm these assumptions:

- In 2004, global oil demand grew at the fastest rate in over 25 years.
- The primary world energy demand will increase annually by 1.7 percent from more than 11 to over 15 billion tons of oil equivalent from 2000 to 2030.
- The developing countries' share in world demand will increase from almost 30 percent to more than 40 percent in 2030 because 83 percent of the world's population live in non-industrialized countries that will double their current energy consumption.
- Almost all the increase in energy production will occur in non-OECD countries.
- In 2030, and contrary to the over-optimistic projections of many proponents of renewable energies, fossil fuels will remain the primary sources of energy. They will meet more than 90 percent of the increase in demand until 2030.
- Although natural gas will grow fastest and renewables are becoming more and more important, oil will remain the most significant energy source—projected to increase from 78 mb/d in 2002 to 115-118 mb/d in 2025/2030 (a 50 percent growth). Crude oil - accounting for 37 percent of the world's energy mix - will remain the world's most important global energy source, thanks to the expansion of the transport sector (whose share of total oil consumption will rise from 47 to about 55 percent).
- Since 2000, China alone has accounted for 40 percent of the world's crude oil demand. China has already replaced the United States as the centre of the world's raw material's market and as a price setter for these industrial raw materials. In 2003, China already displaced Japan as the world's second largest energy consumer and oil importer after the United States, and surpassed Tokyo as the third largest exporter (after the U.S. and Germany).

¹ This analysis is based on numerous publications of the author on the EUs, Russian and Chinese/Asian energy security as well as their implications for their foreign and security policies, including F. Umbach, “Globale Energiesicherheit. Strategische Herausforderung für die europäische und deutsche Außenpolitik“ (“Global Energy Security: Strategic Challenges for the European and German Foreign and Security Policies”), (Munich: Oldenburg Verlag, 2003), 328 pp. (in German) and idem, „Global Energy Supply und Geopolitical Challenges“, in: Francois Godement/Francoise Nicolas/Taizo Yakusiji (Eds.), Asia and Europe—Cooperating for Energy Security, A CAEC Task Force Report, Paris 2004, pp. 137-168 and idem, “Europe's Energy Non-Policy“, Transatlantic Internationale Politik 4/2004, pp. 52-60.

- The economic rise of Asia (above all China and India) has not only created an enormous regional energy demand, it also has raised countless foreign and security policy questions for both regional and global stability.
- With China's growing hunger for energy resources and industrial raw materials has come a much more pro-active foreign and security policy, both regionally and globally. Beijing's import dependencies (energy and raw materials) have numerous consequences for its foreign, security and defense policies. Present policies show this in regard to Iran's ambivalent nuclear program; China's effort to keep this issue out of the UN Security Council is an example.
- The recent Russian-Ukrainian gas conflict has also put Russia's reputation as a reliable energy supplier and partner for the EU into question. That raises important issues regarding Europe's future energy supply security in general and its energy partnership with Russia in particular.

Deficiencies in global energy systems, failing governments in oil and gas producing countries, indeed, crises of any kind in countries and regions outside of Europe—all these things will increasingly affect Europe's politico-economic stability as the global market for energy tightens.

The following analysis will give an overview of the energy and security challenges related to the role of China and Russia in global energy stability, including the implications of their foreign and security policies for the EU and transatlantic relations. It will begin with an analysis of the EU's growing energy security challenges.

The EU's Energy Security Dilemma

Deficiencies in global energy systems, failing governments in oil and gas producing countries, indeed, crises of any kind in countries and regions outside of Europe—all these things will increasingly affect Europe's politico-economic stability as the global market for energy tightens. Although renewable energies and new technologies (such as the fuel cell) are becoming more important and energy efficiency will be increased, they will be unable to contribute much to the global energy supply until 2025/2030.

The present crisis of rising demand for energy in emerging economies like China and India comes with the doubling of oil prices since 2003—and mounting uncertainties about threats of terrorism, how long oil and gas reserves will last, and what kind of capacity is really going to be available on the global market. In this respect, the present global energy and supply crisis is very different from past ones. Thus far, however, the 25 EU member states have failed to forge a coherent European energy security strategy that envisages a clear response to the growing risks of oil and gas dependency over time.

Table 1: World Primary Energy Demand 1971-2030

	1971	2003	2010	2020	2030	2003-2030*
Coal	1439	2582	2860	3301	3724	1.4 percent
Oil	2446	3785	4431	5036	5546	1.4 percent
Gas	895	2244	2660	3338	3942	2.1 percent
Nuclear	29	687	779	778	767	0.4 percent
Hydro	104	227	278	323	368	1.8 percent
Biomass and waste	683	1143	1273	1454	1653	1.4 percent
Other renewables	4	54	107	172	272	6.2 percent
Total	5600	10723	12389	14402	16271	1.6 percent

*Average annual growth rate.

Source: IEA, 'World Energy Outlook 2005', Paris 2005, here p. 82.

Over the past decade or two, the energy policies of the EU and its member states have been increasingly determined by market forces and a separation of energy questions from political factors and strategic developments. Ultimately, energy policies have been left to the industry. Their business interests, however, are primarily guided by short-term economic benefits in an increasingly competitive environment. At the same time, a mid-and long-term national interest in energy supply security has been neglected by both energy companies and national governments. In addition, the privatization of the gas sector, in which new companies emerge, means there will be no single party that will assume overall responsibility for the

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security of gas supply. Therefore, the organization of security for oil and gas supplies can no longer be entrusted solely to the industry at a time when other regions and new/old players like China and India are already pursuing aggressive national strategies determined by geopolitical considerations (including Russia and many OPEC countries) rather than relying on the “invisible hand” of market forces. Whereas this separation of economics from politics has made sense for the internal EU market due to the existing common norms and understandings of the overall importance of market forces, energy policies determined outside of Europe are more than ever defined by those strategic and geopolitical interests of national foreign and security policies (particularly in Russia, China, OPEC-countries, and others).

In contrast to many EU member states (such as Germany), the *EU-Commissioner for Transport and Energy* and foreign and security experts of the EU have intensified their analysis of the EU's future energy and supply security. “Energy security” finds mention in the EU's first global “*European Security Strategy*”—the most important document of its CFSP. In 2004 the British Foreign and Commonwealth Office published an international “*Energy Strategy*” with a specific foreign policy view, while the foreign ministry of the Netherlands completed a similar internal policy document last summer. These new documents also highlight the differences between the various national energy policies and priorities of the EU member states, which makes any coherent international energy security strategy of the EU difficult to implement until it acquires a supranational authority to do so. Despite a constitutional draft that gave the EU more power and influence in the realm of energy policies, its, this remains a field where member states and the *EU Commission* have to share their competence and authority.

Without an EU constitution in place, the national differences in energy policies and strategies increasingly threaten political cohesion, thereby undermining the EU's evolving CFSP. Although the EU has established its own energy partnership with Russia, for instance, many new EU member states and even France and Great Britain have voiced criticisms or expressed their concerns about the ever-growing energy dependence of Germany on Russia—this may have unwanted implications for their own energy, foreign and security policies. The controversial discussions of a new underwater Baltic gas pipeline (North European Gas Pipeline - NEGP) from Russia to Germany and the insufficient German consultation of Poland and the Baltic states, for instance, during the Schroeder-era have demonstrated again the unilateralist tendencies in European energy policies and the lack of a common and coherent EU energy security strategy. Those policies, however, are extremely short-sighted because they also undermine the EU's CFSP and ignore the lesson that any individual EU member state is too weak to establish itself as a strategic actor in the context of a growing energy resource competition vis-à-vis China, Russia, India, Japan and the OPEC. In this light, the British Prime Minister Tony Blair had already demanded a common EU energy policy in October 2005, arguing in the European Parliament:

„For far too long we have been in the situation where, in a haphazard and random way energy needs and energy priorities are simply determined in each country according to the needs, but without any sense of the collective power we could have in Europe if we were prepared to pool our energy and our resources.”

Although energy questions dominated the negotiations leading up to the treaties of Paris (1951) and Rome (1957), the specific institutional provisions were made just for coal and nuclear industries

(leading to the *EURATOM* treaty in 1957). In regard to oil, gas and renewable energy sources, each EU member is free to determine their own national energy policies.

EU members possess only about 0.6 percent of the world's proven oil reserves, 2.0 percent of the global gas reserves and, at least, 7.3 percent of proven coal reserves. In 2001, the EU produced 4.1 percent of the world's crude oil, 9 percent of global natural gas, and 11 percent of the world's coal. With its eastward extension, the EU was able to increase its coal reserves substantially (by 41 percent), but not its oil and gas reserves. In 2002, the EU accounted for 16 percent of world energy consumption with just 6 percent of the world's population. In 2001, oil was still the dominant fuel for 43 percent of total EU energy consumption, followed by gas at 23 percent. It imported 27.5 percent of its oil demand from Eastern Europe (mainly Russia), 24.6 percent from the Middle East, 20.5 percent from Africa and 19.95 percent from Norway.

Table 2: EU - Primary Energy Demand 1971-2030 (Mtoe)

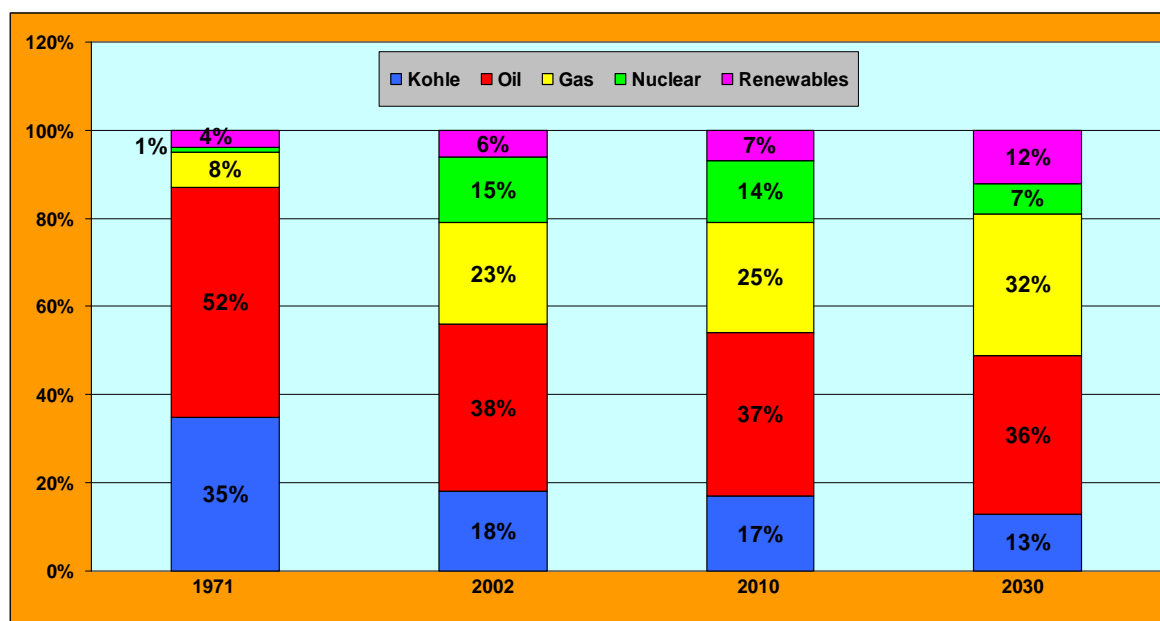
	1971	2002	2010	2030	2003-2030*
Coal	426	303	307	274	-0.4 percent
Oil	633	648	687	743	0.5 percent
Gas	93	389	468	649	1.8 percent
Nuclear	13	251	251	146	-1.9 percent
Hydro	20	26	30	33	0.8 percent
Biomass and waste	25	65	84	147	3.0 percent
Other renewables	2	8	21	57	7.2 percent
Total	1211	1690	1848	2048	0.7 percent

*Average annual rate of growth.

Source: IEA, 'World Energy Outlook 2004', Paris 2004, Table 8.3, p. 251.

Gas will make up most future new capacity, while the number of oil and solid-fuel power stations will continue to decline. With the EU's enlargement policies bringing in new East European countries, Europe's energy dependence will reach even more worrying proportions. Natural gas imports, for instance, may rise from 60 percent to 90 percent and oil from 90 percent to 94 percent. Thus the EU's long-term strategy for energy supply security has to assure uninterrupted physical availability of energy products on the market, at a price which is affordable for all private and industrial consumers, while at the same time balancing environmental concerns - an even more important objective in the light of the *Kyoto-protocol*.

Table 3: EU - Fuel Shares in Primary Energy Demand 1971-2030



Source: IEA, 'World Energy Outlook 2004', Paris 2004, Figure 8.4, S. 252.

Moreover, the expansion of natural gas as an environmentally clean energy source will also play a very important role in the next two decades for the EU member states. In this regard, the EU and Russia (with its 48 trillion cubic meters of reserves) declared an "energy partnership" in October 2000. EU gas consumption is expected to increase from 370 billion cubic meter (bcm) up to 605-820 bcm. Based on comparable calculations, the *IEA*, for instance, projected a greater increase of the EU's natural gas imports from 49 percent in 2002 to over 81 percent - compared with the *European Commission* (70 percent) - until 2020/2030. The share of gas in total primary demand will rise from 23 percent at present to 32 percent in 2030. In the future, it is expected that a growing share of EU gas imports will be shipped as LNG.

The enlarged European Union borders on the main oil and gas producing areas such as Russia, Caspian Sea and North Africa, and with a decreasing distance also the Middle East and the Persian Gulf. Against this background, the EU has become more pro-active in order to widen and deepen its energy dialogues with neighboring countries and regions. With external dependence on imports forecast to grow steadily, the EU has started to integrate energy aspects into its CFSP and relations with third countries. Despite being a major player on the international energy market, the EU has recognized that it would remain a political dwarf on the global stage if the member states keep the upper hand on energy and foreign policies. Hence the European Commission is seeking to intensify relations with major producer and consumer countries, notably Russia and the countries of the Caspian Basin, the Mediterranean region, Norway, Ukraine and even beyond, in order to diversify the EU's future oil and gas supply networks. It has also expanded its energy discussions with the main consumer countries, such as the U.S.A., China and Japan. However, until the early summer of 2005, the EU lacked an important institutionalized dialogue forum with the OPEC countries and particularly the Persian Gulf States such as Saudi Arabia. But in 2005, the first two meetings took place, and individual bilateral dialogues between the European Commission and the six members of the Gulf Cooperation Council have started.

China's Energy Insecurity and the Implications for its Foreign and Security Policies

The energy demand of the People's Republic of China as the world's most populous country will have a long-term influence on regional and global energy supplies as well as manifold effects upon Beijing's foreign and security policy, regional stability in Northeast, South and Central Asia and Beijing's relations with the United States and Europe. With its 1.3 billion inhabitants, China is already the world's second-largest consumer of primary energy (accounting for more than 10 percent of the global primary energy demand), the third-largest energy producer and after the United States, the largest contributor to global carbon dioxide (CO₂) emissions. In 2003, China imported 91 million tons (mt) of crude oil—31 percent more than in 2002. At present, it depends on imports for almost 50 percent of its oil consumption; this may rise to 74 percent by 2030 (according to IEA forecasts).

China is a key player in world energy markets and one of the fastest growing economies in the world. China's anticipated annual economic growth of around 4.8 percent will drive up China's energy demand, though on a lower scale (around 2.7 percent). China's oil demand will rise by 40 percent until 2030, due to vigorous growth in the transport sector. With a projected 3 percent annual increase in primary oil demand, China's oil consumption of 5 mb/d in 2001 may more than double by 2025 to 12.8 mb/d, with net imports of 9.4 mb/d. According to the IEA's projections, net oil imports will rise from 1.7 mb/d in 2001 to 4.2 mb/d in 2010, around 8 mb/d and 10 mb/d in 2030—almost equivalent of those of the United States in 2000, the present total crude oil production of Saudi Arabia as the largest oil producer in the world and more than the projected net imports of Japan, South Korea, Australia and New Zealand combined.

Energy experts are always worried about price increases, whether sudden or steady. At the same time, some forces will work to mitigate the price impact of the massive increase in oil consumption out of China and East Asia: increased global oil production, the increasing market orientation of national energy policy including privatization and deregulation, more efficient package-switched distribution of energy, conservation technologies and policies. Energy security is also dependent on non-market forces. It depends not least of all on the policies of the states concerned and the choice of national strategies for energy security. This is especially true of the Asia-Pacific region, where 60-70 percent of all crude oil imports are still arranged by contracts with state-owned or semi-state controlled international Asian companies. These contracts are determined not only by economic factors, but also by strategic aspects of the foreign and security policy of the individual country. Given the new energy policy dependencies in the early 1990s, Chinese foreign and security policy had to deal with regions and countries that until then had played either no or only a secondary role in its traditional foreign policy. For that reason, the possibility of greater economic and political rivalry, in particular with Japan, India, the United States and, in the medium and long-term, Russia (in Central Asia), for shrinking global oil reserves cannot be excluded.

Since early 1997, China has shown a policy of demonstrative activity in securing of new sources of energy. In 1997 alone, the *Chinese National Petroleum Corporation (CNPC)* completed no less than 18 international petroleum and petrochemical projects with a contract value of around USD 750 million. These included the purchase of foreign oil companies (or acquisition of major stakes in the companies), pipeline projects (in Turkmenistan and Thailand) and the construction of refineries and depots abroad. In addition, the PRC is also participating in the development of oil fields in Russia, Pakistan, Kazakhstan, Indonesia, Egypt, Ecuador, Venezuela, Argentina, Iran and Sudan. By October 1997, China had already concluded 126 contracts and agreements with a value of US\$5.38 billion, signed with 67 companies from 18 countries. In 2002, China controlled more than 2.72 billion barrels of oil reserves outside its own territory by means of take-overs and international alliances.

Although China's government plans to launch a new round of exploration projects inside China to reduce the country's growing dependence on foreign energy resources, its main focus now is on gaining more overseas drilling rights for Chinese companies. These steps present new risks for China's future oil security. Nonetheless, Chinese companies have stepped up their investment abroad to acquire direct control or partial rights in some of the world's potential oil fields. Beijing has forged closer ties with almost all continents. It has become much more pro-active in Africa (Sudan,

Chad, Angola), the Middle East (Saudi Arabia, Iran, Algeria) and even Latin America (Bolivia, Venezuela, Ecuador, Columbia, Peru and Brazil). Despite the fact that China has recently secured new supplies of oil and gas resources with Australia and Indonesia, the Persian Gulf region has become steadily more important not only for the energy policies of China and the other Asian states, but also for their national foreign and security policies. At present Saudi Arabia accounts for some 16 percent of China's oil imports, while Iran contributes 14-15 percent. In 2004, China signed a preliminary \$70 billion contract to buy Iranian oil and natural gas, whereas India at the beginning of 2005 also completed a \$40 billion gas deal to import 7.5mt of LNG annually over a 25-year period.

The increasingly global orientation of Chinese foreign and security policy toward the Persian Gulf, Africa and even Latin America Since the mid-1990s stems from China's energy requirements and rapidly increasing imports of oil and gas from countries outside the Asia-Pacific region. All these Chinese diplomatic activities in the energy field have produced an economic-security nexus that is determined by the most fundamental core interest of Beijing's political leadership: economic growth and domestic stability in order to ensure regime survival. However, these unilateral energy-security strategies are undermining multilateral and regional co-operation and may fuel already existing strategic rivalries such as with Japan, India and the United States. Nonetheless, Europe has so far failed to heed and analyse these economic and political interdependencies and their geo-political implications for China's foreign and security policies, although they raise numerous challenges not only for the United States, but also for the European Union.

As Chinese energy and foreign policy experts have admitted, China had always played a rather passive diplomatic role in the Middle East, declaring obvious platitudes about seeking peace and stability, but in reality not really caring too much about regional stability. Now China has a lot at stake and pays much closer attention to the strategic developments in this region. This is all the truer because China's energy policies and "*oil diplomacy*" continue to give bilateral relations clear priority over multi-lateral strategies and solutions designed to safeguard its energy supply. However, at the start of the 21st Century, these are utterly inadequate to deal with the countless challenges that the process of globalization has created for international trade, regional conflict management or international efforts in the field of arms control policy and non-proliferation measures for weapons of mass destruction. Both the Middle East and Central Asia are confronted with countless internal and regional instabilities that could have a strong negative impact on the reliability of regional and global energy supplies. Moreover, China could find itself exposed to growing political pressure from the oil- and gas-exporting states in the Middle East. This political pressure could result in either greater Chinese arms exports, including sensitive dual-use goods and technologies, or to concessions by Beijing on other political issues that run counter to Western and EU policies and long-term strategic interests such as in the case of the Iran. Chinese support for the Russian and French positions on UN sanctions and objections to military action against Iraq, Western policy toward Iran and problematic arms exports to Teheran and other Gulf states (including ballistic missiles) in the 1990s have already demonstrated this problem.

Russia—A Reliable Energy Partner for the EU and the West?

Russia seems to be the logical energy partner for the EU: It enjoys the world's largest natural gas reserves, the second largest coal reserves, the eighth largest oil reserves; it is already the world's largest exporter of natural gas, the second largest oil exporter (only behind Saudi Arabia) and the third largest energy consumer. Given the political instabilities in the Middle East, the natural solution for Germany and the rest of the EU seems to be to expand imports of oil and natural gas from Russia, as expressed in the European-Russian energy partnership proclaimed in 2000. At first glance, there are indeed a number of reasons (not least the argument of improved political stability) for a drastic escalation of energy imports from Russia, being the EU's fifth largest trading partner (after the United States, Switzerland, China and Japan). In 1999, 45 percent of Russia's total energy exports, 53 percent of its oil exports and 56 percent of its natural gas exports to Europe were delivered to the EU, reflecting mutual economic interdependencies. At present, Gazprom alone supplies 25 percent of the EU's natural gas needs, and the EU buys 85 percent of Russia's oil exports. For modernizing and expanding its energy sector, Russia needs more than \$900

billion by the year 2020. In this respect, the EU appears as the perfect modernization partner of Russia. On May 22, 2003 the Russian government released its official '*Energy Strategy to 2003-2020*', which outlines key objectives, interests and strategies of its energy policies. But it also raises new questions in regard to the future volumes of Russia's oil and gas exports to the EU.

Although Russia has fulfilled its supply obligations under its long-term contracts with the EU since the beginning of the 1980s, Moscow's pipeline plans and policies are not just determined by economic considerations but also by the geopolitical interests of its foreign and security policies. The EU is interested in increasing the future import of Russian oil and gas (rising oil and gas demand until 2020) and thus has often ignored geopolitical dimension of Russia's energy and pipeline policies. Nevertheless, it remains uncertain whether Russia can deliver the needed amounts of oil and gas and whether the EU will not increasingly diversify its oil and gas imports—particularly after the recent Russian-Ukrainian gas conflict and the Yukos-affair. The arrest of *Mikhail Khodorkovsky*, chief executive of the private Russian oil giant *Yukos*, has caused uncertainty regarding the future of reform policies in the Russian energy sector. As the result of the Kremlin's crackdown on *Yukos* and its policies to increase state control of the energy sector, a sharp decline of Western investment in this sector occurred in 2005. Moreover, the *Yukos*-case is not unique, but part of an overall re-nationalization concept in Russia's energy industry. However, adding lucrative oil production facilities to *Gazprom* in an effort to transfer it to one of the world's biggest energy companies, restoring state control (51 percent of the shares of *Gazprom*), and going to global markets to raise billions in new capital will not likely encourage energy efficiency, combat widespread corruption, promote internal reforms and increase much needed transparency. Consequently, in view of Russia's need for vast direct foreign investment of more than \$900 billion, it is highly doubtful whether that country in the next two decades can modernize its own utility industry enough to keep pace with the energy exports that Moscow is planning to make to Europe. Sixty percent of Russia's gas pipelines, for instance, are older than 20 years, which is nearly two-thirds of their projected lifespan. Pipeline capacity is already limited.

Moreover, from the outset of Putin's presidency, international experts have observed a "*creeping re-nationalization*" of Russia's energy policy, albeit Putin has pragmatically welcomed an increase in the financial involvement of Western companies, especially German ones. The controversial decision by Germany's former Chancellor Gerhard Schroeder to accept an appointment with the *North European Gas Pipeline Company (NEGPC)*, a project controlled by *Gazprom* and, therewith, the Kremlin, has highlighted the often naïve views in German political and economic circles on Russia's energy and pipeline policies.

In 1997, before *Putin* was appointed Prime Minister and then elected President, he defended a Candidate of Sciences dissertation ("Mining Raw Materials in the Strategy for Development of the Russian Economy") at the *St. Petersburg Mining Institute*, in which he outlined his views on natural resource policy for Russia. His thesis and his article of 1999 in the institute's journal summarizing his dissertation thesis are fully consistent with his re-nationalization policies of Russia's natural resources sector during the last years. Putin—who sees the demise of the Soviet Union as "the greatest catastrophe of the 20th Century"—views Russia's resource sector and particularly its energy industry as a strong supporter of a "managed democracy" from above. It is to serve not only as key to the nation's economic development, but also Russia's geo-political revival as a new economic-political (energy) superpower—at a time when 66 percent of Russians regret the collapse of the USSR. In his ambitions to use Russia's oil, gas and pipeline industry as the most important instrument of Russian foreign and security policy, the Russian state must exert strategic control over the energy sector; it cannot be left entirely to market forces and strategies. Hence, Putin allowed not only the dismantling of *Yukos* through a series of legally dubious machinations, he increased the government stake in *Gazprom* from 38 to 51 percent. He also allowed it to buy *Sibneft* as Russia's fifth-largest oil company. By having majority control of *Gazprom*, the state directly controls now 30 percent of Russian oil output. The new "Kreml Inc.", a circle of few confidants of Putin, already controls nine big combines and, therewith, not less than 40 percent of the Russian GDP at the end of 2004. In Putin's view - supported by many "silowiki" in the Kremlin, ministries and the parliament - the EU's increasing dependence on Russia's gas imports and pipelines and European oil and gas sectors owned by Rus-

sian companies may lead to a policy of “silence for gas.” This would be an “oil and gas-fueled Finlandization of Europe.” According to Russian analysts, the wide acquisition of Gazprom stock by the Moscow elite during the last years means that many of the same people who are designing Russia's foreign policy are also the large Gazprom stockholders.

In August 2005, Russia's Foreign Minister Sergej Lavrov, stated that Russia was planning a radical change in its policy vis-à-vis other former Soviet republics and even influential powers such as the United States and the EU. Moscow would no longer tolerate any agreements in which it did not receive economic or political benefits for its oil and gas exports. This demonstrated a new political willingness by the Kremlin to reward the politically loyal (like Belarus or Armenia) by allowing them to enjoy huge subsidies valued in the billions of dollar a year, and to pressure and intimidate the intransigent countries of the former Soviet Union (such as Ukraine, Georgia, Moldova and others), that is, those turning away from Moscow on key foreign policy issues.

The recent energy conflict between Moscow and Kiev (Ukraine imports a third of its energy from Russia) has shown that the Russian government and President Vladimir Putin are prepared not only to use Russian energy to force customers to pay much higher prices almost over night, but also to use it as a foreign policy tool to pressure customers to concede to Moscow's geopolitical ambitions. Shortly before the outbreak of the conflict, Gazprom—controlling 16 percent of the world's known natural gas reserves and carrying 25 percent of the EU's gas supplies as well as 80 percent of Russia's gas exports, transported via pipelines over the Ukrainian territory - took steps in order to ensure its leverage by blocking all other regional producers from providing Ukraine with alternative sources by buying up all of their production itself, such as those of Turkmenistan. The intended gas conflict was also a new attempt by Putin to influence the forthcoming parliamentary elections in Ukraine next March.

Moscow was not so much interested in world market prices, but rather to acquire the Ukrainian pipeline system—especially after Moscow took over the ownership of the Yamal-gas pipeline on the territory of Belarus in December 2005. Gazprom has already tried to buy into the gas-distribution networks in Hungary and Poland to regenerate itself as a great power in Europe and beyond. It has also put immense pressure on the Georgian government to cede control over the gas pipelines that ship gas from Russia to Georgia and beyond to Armenia. Thus both Georgia and Ukraine have opposed any Russian ambitions to take over their pipeline system, which would have consequences for their pro-Western foreign and security policies.

With the Kremlin plan to create a Gas-OPEC from Europe to Asia and the conclusion of different bilateral and individual deals with European companies rather than partnerships, Moscow has also encouraged fierce competition among European companies and states for access to Russian energy assets. For years, Russia has locked European gas companies into long-term contracts, making them critically dependent on Gazprom for many years. This is part of an overall energy and foreign policy doctrine to increase Gazprom's market share in Western Europe (with the focus on Germany) from 26 to 38 percent by 2020. The long-term contracts go far beyond just gas deliveries. By using its monopoly status and political power to dictate the prices, often regardless of previously agreed contracts, Gazprom efforts are directed at controlling the exploration, delivery and sale of gas to many countries in order to lock up these markets, such that these countries cannot turn elsewhere for their energy.

Under these circumstances, it is not surprising that progress on the mutual energy dialogue has been hampered by the two parties' divergent interpretations of its meaning. While Russia wants EU support to modernize its energy sector and protect its strategic and geopolitical position in Europe through the European Union, the EU has sought the reform and opening of the Russian energy market through market mechanisms and the creation of a positive business climate.

Given their own experiences as weak states vis-à-vis the “big brother,” it is hardly surprising that Poland and the Baltic states have heavily criticized the new German-Russian agreement to build a 1,200 km gas pipeline directly linking them under the Baltic Sea by 2010. Indeed, the German government of Chancellor Gerhard Schroeder did not consult its new EU neighbor states nor did it review and take into account the underlying geopolitical motivations of the Kremlin or the energy,

ecological and security interests of these new EU members. Given the re-nationalization trends in the so-called “strategic sectors” of the Russian economy and particularly in its energy industry, there is no guarantee that Western and even German companies will not find themselves in an analogous position to Yukos. Furthermore, the economic rationale behind the project is very questionable, because the costs of this underwater pipeline are 2 to 3 times that of a comparable land pipeline - even if one includes higher transit costs through several countries. Furthermore, there are more economically attractive pipeline options from Central Asia, which would offer a real diversification of pipelines and supply sources and routes, and thus enhance the EU's future energy security.

Conclusions and Perspectives

The EU faces new energy challenges in the coming decades for which it must have an appropriate energy security strategy. Due to the environmental obligations of the *Kyoto-Protocol*, phasing-out nuclear energy programs in important EU member states, and increasing depletion of oil and gas fields in the Northern Sea until 2020, the EU will become much more dependent on oil and gas imports from outside Europe. In addition to Russia, this includes unstable countries and regions in the Middle East, Central Asia and Africa. Despite new energy-saving measures and the promotion of renewable energy sources, oil and gas will remain the primary energy sources through 2025. Therefore, and given the completion of the internal market, the EU and its member states need to take a global view in an age of globalization and growing interdependencies between domestic, external and economic security on one hand, and local, regional and global political as well as socio-economic stability on the other hand. Accordingly, the EU needs to introduce a real global strategy of security of energy supply that is based on a new balance between market and strategic approaches—thereby giving more weight to highly important geopolitical risks, both in a *Common European Energy Policy (CEEP)* as well as in the *CFSP*. The EU needs new policy instruments for a *CEEP* and its *CFSP* to assure the global security of energy supplies.

The Western aim of encouraging China's integration into the international global cooperation structures, while insisting, in return, that Beijing abide the same rules as everyone else, will remain the major strategic goal and challenge for the years to come. China's energy policies and the implications for its foreign and security policies will create a particular challenge for transatlantic security cooperation. On the EU side, a more critical discussion of the global efforts of de-nuclearizing Iran in the framework of China's energy and resource diplomacy, for instance, is overdue. Another example is China's and India's attempts to engage “states of concern” (such as Myanmar, Sudan, and Zimbabwe) in order to access their energy resources. Chinese and Indian policies are undermining attempts by the United States and the European Union to isolate these regimes economically and politically. This highlights one of the major challenges and dilemmas of the EU's policies vis-à-vis China in the next decade: To protect long-term EU and Western security interests without driving China into political linkages with pariah states.

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Regardless of the volume of the future Russian energy imports (which also needs to be discussed), the EU-25 will need to diversify its rising oil and gas imports by also looking to other potential energy producers—even those which are seen as politically more unstable. Given their close proximity to an expanded EU-30, rising oil and gas energy imports, the global fight against international terrorism, and proliferation of weapons of mass destruction, the EU is forced to deepen and expand its relations to Central Asian states and countries in the Middle East by pursuing “*strategic partnerships*” and “*strategic dialogues*.” Russia and the Caspian Sea states have the potential to break into some markets in Europe, the United States and Asia, but they cannot replace the Middle East as the world's primary supplier of oil.

In regard to Germany's and the EU's energy partnership with Russia, a more objective, realistic, comprehensive and analytical view of Russia's energy policies is urgently needed - the Merkel coalition government has begun to move in this direction. The EU can no longer overlook Russian use energy resources and pipeline monopolies in the 1990s as a foreign policy instrument towards its

neighbors on the territory of the former USSR and particularly Ukraine. Ukraine is the target of Russia's ambitions to become a new great power based on its energy resources and attendant political influence on the regional and global level. In Putin's view, Russia's energy sector becomes the new Russian source of international power and prestige and part of the global balance of forces. Energy has replaced Russia's once great military power, which is only a shadow of its former myth. Hence the Russian state must play the dominant role in its strategic industries, particularly in its oil and gas sectors. In this context, Gazprom has become the national energy champion and the most important foreign policy instrument. Putin's new energy security doctrine is not only an energy challenge, but also a foreign policy challenge, for transatlantic relations and the EU in particular.

The Russian-Ukrainian gas conflict has called Moscow's reputation into question as a reliable energy partner of Germany and the EU. It was also a clear breach of the spirit if not the letter of the World Trade Organization, which Russia is likely to join in coming months. If Russia follows the present path, it will be part of the problem of global energy insecurity, not part of the solution.

As Russia is hosting the 2006 G-8 Summit, where it wants to discuss Russia's increasing role in global energy security, Moscow faces clear constraints. Russia can not argue persuasively that it wants to play such a role and at the same time to use energy supplies as a foreign policy instrument to pressure Ukraine (meanwhile also Moldova and Bulgaria). Russia can not demonstrate its political desire to have the capacity to inflict real economic pain and political pressure, even towards the EU and the West.

Therefore, the EU needs a constructive discussion about the extent to which it should become dependent on just one energy producer—in the case of Russia, a producer that is not a democracy (though it is more stable than many countries in the Middle East or Central Asia) and is still leveraging energy access, particularly pipeline plans, for its foreign and security policies. These often run contrary to those of its neighbors as well as of many long-term strategic interests of the EU. The re-nationalization trends are an important prerequisite for Putin's increasingly assertive foreign policies, using its energy policies, exports and pipeline plans as an instrument of political pressure and blackmail in Eurasia.

Therefore, the EU needs to minimize dependency on just one single energy producer, even if a certain energy dependence on Russia is unavoidable. There is really no alternative to an EU-Russia energy partnership. It must also manage its policy better by taking into account the interests not just of its new members (such as Poland) but also of those left outside (i.e., Ukraine and Central Asian states) in order to develop lasting regional stability. The recent Russian-Ukrainian gas conflict has underlined these basic principles: First, importance of a collective EU energy security policy vis-à-vis Russia that moves away from coercion on individual countries to real collaboration and cooperation on an equal status between a politically united EU and a more pragmatic, democratic and market-oriented Russia. Second, the obvious though difficult need to diversify energy supply sources and energy transportation routes.